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FISCAL IMPACT REPORT

ORIGINAL DATE 2/22/07

SPONSOR Foley LAST UPDATED _____ HB 787

SHORT TITLE Armed Forces Income Tax Exemption SB _____

ANALYST Francis

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY07	FY08	FY09		
(\$3,000.0)	(\$12,000.0)	(\$10,000.0)	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

Related Bills:

HB 207	Cote	ARMED FORCES INCOME TAX EXEMPTION
HB 368	Sandoval	ARMED SERVICE RETIREE INCOME TAX EXEMPTION
HB 497	Foley	MILITARY RETIREMENT PAY TAX EXEMPTION
HB 541	Anderson	ARMED FORCES INCOME TAX EXEMPTION
SB 43	Robinson	MILITARY PENSION INCOME TAX EXEMPTION
SB 492	Carraro	ARMED SERVICES INCOME TAX EXEMPTION
SB 493	Carraro	MILITARY PENSION INCOME TAX EXEMPTION

SOURCES OF INFORMATION

LFC Files
Taxation and Revenue Department (TRD)

Responses Received From
Taxation and Revenue Department (TRD)
Department of Military Affairs (DMA)

SUMMARY

Synopsis of Bill

House Bill 787 exempts income earned as active duty members of the US armed forces. The effective date is January 1, 2007.

FISCAL IMPLICATIONS

TRD:

The \$10 million annual fiscal impact is based on the following assumptions: 1) the average salary of military service people is approximately \$45,000, 2) approximately 70% or \$31,500 would be taxable after allowance for present law exemptions and deductions, 3) the tax reduction to service members would be approximately \$1,350 annually, and 4) approximately 7,000 New Mexico taxpayers or roughly .5% of the 1.4 million total U.S. active service members receive the exemption. The estimate also assumes obligations of approximately 3,000 national guard and army reserve members receiving income from weekend meetings and summer camp would generate approximately \$400,000 in reduced tax obligations.

Due to the timing of the exemption, it's assumed that 30 percent of the 2007 impact will fall in FY07 and 70 percent in FY08. For tax years 2008 and beyond, it is assumed that half of the impact will fall in each fiscal year.

ADMINISTRATIVE IMPLICATIONS

Provisions of the proposed measure would impose relatively minor administrative impacts on the Taxation and Revenue Department. Provisions of the proposal could be administered with resources currently available to the Department.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

There are several bills that have been introduced to exempt active duty military pay, military retirement income, and earned income of military retirees. HB541 and SB492 both exempt all income for active duty military. HB 368 exempts earned income by military retirees up to \$50 thousand. SB 43, SB 493 and HB 497 exempt military pension income.

TECHNICAL ISSUES

According to the Department of Defense, "Active Duty" refers to "Full-time duty in the active service of a Uniformed Service, including fulltime training duty, annual training duty, and attendance while in the active service at a school designated as a Military Service school by law or by the Secretary concerned."

NM Department of Military Affairs reports that this bill does not cover members of the full-time National Guardsmen.

TRD notes that, as written, the measure could be interpreted to include an exemption for federal personal income tax obligations. It should be amended to clarify that it does not.

OTHER SUBSTANTIVE ISSUES

By reducing state tax obligations, the proposed measure would tend to increase federal tax liability because state tax obligations are deductible against federal liability. Hence the net taxpayer benefit would be less than the \$1,575 per claimant mentioned above. The \$1,575 in state tax savings would, for example, be reduced to \$1,260 ($\$1,575 \times .8$) for a taxpayer in the 20% federal tax bracket.